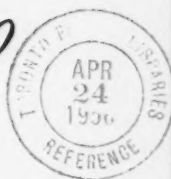


T H E C A N A D I A N

*personnel*



*& industrial relations*

J O U R N A L

contents  
for  
APRIL, 1956

The Group Oral in Canada  
by Neil A. Macdougall

Recruitment and Management  
of Personnel  
by Clarence H. Fraser

Payment for Time Spent by Employees  
in Union Meetings  
by C. P. Chaston

Public Relations and Labour Relations  
by Lloyd Hemsworth

Executive Compensation  
by F. R. Manuel

# The Personnel Registry

33 AVENUE ROAD, TORONTO, 5. WA. 4-0781

---

MEMO TO: An Advertiser for Personnel.

FROM : SUBJECT: Personnel Recruiting

C. J. Smith

J. R. Duff

C. R. Leishman (Mrs.)

---

Are you having difficulty locating capable personnel?

Because so many companies are, we made a concentrated study of personnel recruiting problems including the cost of finding suitable employees. Out of our research we developed a number of theories. We are pleased to report that these theories have now been tested and proved.

Whether you are looking for a President or his secretary, an office boy or a female clerk, we can help you reach more worthwhile applicants and save money for you while doing it.

In Toronto (a Montreal office will open shortly) many companies have decided to use us exclusively when they are seeking personnel. They say that on every count, cost — in time and money; convenience; and quality of personnel located, our services can't be beaten.

May we have the pleasure of assisting you in locating capable personnel quickly and inexpensively?



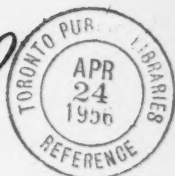
SEC

Printed



T H E C A N A D I A N

# *personnel*



## *& industrial relations*

### J O U R N A L

#### *contents*

FOR  
SECOND QUARTER  
1956  
Vol 3, No. 2

Editorials—Federation-Journal All Canada	
Meeting—Wide Interest in Arbitration—	
Employee's Reaction to Automation .....	4 to 8
The Group Oral in Canada	
Neil A. Macdougall .....	9
Recruitment and Management of Personnel from	
the point of view of Organization and Career	
Planning	
Clarence H. Fraser .....	13
Payment for Time Spent by Employees in Union	
Meetings	
C. P. Chaston .....	21
Public Relations and Labour Relations	
Lloyd Hemsworth .....	23
Executive Compensation	
F. R. Manuel .....	31
Personnel Records	
K. E. Cowan .....	41
Du Pont Speeds Routine by Dropping Time	
Clocks .....	43

Printed in Oshawa, Ont.

The CANADIAN PERSONNEL AND INDUSTRIAL RELATIONS JOURNAL is published quarterly by the Personnel Associations throughout Canada. Editor is J. Rae Perigoe, M.A., 143 Yonge St., Toronto. EM 2-1923. Advertising Rep. Harry Dobens, Office 143 Yonge St., Toronto. EM. 2-1923.

Yearly subscription is \$3.00 to members of Canadian Personnel Associations: \$4.00 to others. Extra copies of this issue \$1.25 each. Make cheques payable to The Canadian Personnel & Industrial Relations Journal and send to 143 Yonge St., Toronto.

Authorized as second class mail, Post Office Department, Ottawa.

# picture of efficiency



Vendomatic machines keep workers close to their jobs and help eliminate those costly hard to control "coffee breaks". And at the same time the extra convenience to the staff boosts amicable employee relationships.

Benefits offered by this equipment have been proven in some of Canada's leading industrial plants.

Vendomatic machines and services are dependable. You have no problems. Everything is looked after by an independent operator equipped to install, service and refill the machines. He will gladly give you a free survey of your requirements.

Write to the address below for full details.

*Here are some companies presently using Vendomatic machines:*

Canadian General Electric Co. Ltd.

Canadian Pittsburgh Industries Ltd.

Fiberglas Canada Limited

Canadian National Express

Royal Canadian Air Force

Canadian Army



*Vending machines for*

COFFEE  
SOFT DRINKS  
SOUP MILK  
HOT CHOCOLATE  
CANDY GUM  
SANDWICHES  
CIGARETTES  
PASTRIES

## ***vendomatic***

**(1954) LIMITED**

1270 CASTLEFIELD AVENUE, TORONTO 10, ONTARIO



## **GOOD FOOD PAYS DIVIDENDS IN INDUSTRY AND INSTITUTIONS**



Good, nourishing, balanced meals, prepared and served in pleasing hygienic surroundings provides the energy and alertness demanded by modern business.

Industrial Food Services is experienced in the business of mass feeding. They buy skillfully and reduce costs . . . advise and plan kitchen and dining room installations . . . and provide low cost menus with high energy value, planned by a qualified dietitian and prepared and served by highly skilled personnel.

*Enquire Today, Without Obligation*

## **INDUSTRIAL FOOD SERVICES**

**DIVISION OF CANADIAN FOOD PRODUCTS SALES LIMITED**

**67 Walker Avenue**

**Toronto, Ontario**

Montreal - Ottawa - Hamilton - London - Windsor - Winnipeg  
Calgary - Edmonton - Vancouver

## **Federation-Journal All Canada Meeting**

**T**HE WINNIPEG Conference of Personnel Associations across Canada last fall recommended that a meeting of a similar group be held this fall in Hamilton. Plans for this meeting are already underway. A committee is being formed in which Hamilton and Toronto will take leading parts but on which all adjacent eastern Personnel Associations will be asked to have representation. This will include Montreal. This committee is to go forward immediately with plans for arrangements such as hotel accommodation and program.

A tentative program was suggested which went from participation by the out-of-town people in the monthly dinner meeting of the Hamilton Association, through discussions of the Journal and Federation, down to a football game on Saturday afternoon. Dates are October 26 and 27.

There seems to be a strong feeling pretty well throughout personnel associations across Canada that it would be premature to set up a "paper" Canadian Federation but there does seem to be strong interest in an annual "Conference" or informal gathering of personnel people from all over Canada, which in itself is federation of a sort.

### **Wide Interest in Arbitration**

Evidence of the desire of personnel people to learn more about arbitration in a hurry is the enthusiasm that greets the appearances in this country of Jules J. Justin, U.S. authority on the subject.

Last spring when Mr. Justin spoke

to the Personnel Association of Toronto in conference at the Royal York Hotel his session was crowded to the doors. This spring he spoke to a meeting of the Personnel Association of Toronto and members were turned away because of lack of room.

Mr. Justin conducted a seminar on collective bargaining and arbitration under the auspices of the Personnel Association of Toronto in February and is repeated in April 11, 12 and 13, at the Guild Inn, Scarborough. Registration fee is \$125 for members and \$150 for non-members.

We note, too, that the McGill Industrial Relations Centre held a One Day Conference on Labor Arbitration on March 13. They brought up the executive vice president of the American Arbitration Association J. Noble Braden and held a practice arbitration under the chairmanship of the Ontario Labor Relations Board chairman.

### **Interesting Arbitration**

Canadian Sirocco Company have successfully won an arbitration case on a point that "a company has the right at any time to require the physical or mental examination of any of its employees by the Company doctor if the Company has any reason to believe that such employee, because of physical or mental illness, is a source of danger to himself or fellow employees, or to Company property, or is unfit to perform his duties."

It is interesting to note that in a recent survey of Ontario companies

62.1% of those participating in the survey do uphold this policy, 24.1% do not and 13.8% say that they would probably uphold the policy.

### **Employee's Reaction to Automation**

Listened with interest to J. G. Craig, vice president, Personnel, Chrysler Corporation of Canada, Limited in a talk to the National Concrete Products Association in Windsor last month.

Mr. Craig, who has recently come into personnel work from production, was talking about automation. He said:

"For some reason, automation seems to be approached as if it were something new. While the term is new, it is largely automation that has brought us this far from the dark ages. The modern assembly line is no more an achievement in

automation than man's progress from the ox-cart to the automobile, from wagon trails to smooth concrete highways.

"To me," said Mr. Craig, "one of the most important meanings of automation is, that it is placing in the hands of men, new advanced forms of power-driven equipment that are making life in the factory safer, less fatiguing, less monotonous, more productive, more interesting, and more demanding upon the intelligence and skill of the worker. In this sense, automation is an important human relations tool.

"A few days ago, our President received a letter from one of our employees. It happens to be apropos the subject of automation, and human relations generally. The man who wrote this letter is now in an automation phase of our operations after long service on other kinds of work. He writes: 'I now find that

## **FOOD CONSULTANTS**

**Industrial Plants**

**Office Coffee Service**

**Restaurants**

**Schools**

***Personalized Service***

***by Experienced Management***

## **FOOD SERVICE MANAGEMENT**

**LIMITED**

**JOHN E. COLES  
GENERAL MANAGER**

**149 Yonge Street  
Toronto 1, Ont.**

**EMpire 3-7418**

*Have you a problem with the*

## *Scarcity of Secretaries*

*or other female staff?*

**Personnelle Placement Service can assist you —**

- ★ Worthwhile interviews can be arranged immediately when the "right girl" is currently registered with us.
- ★ We can advertise for you — experience has proved that we are able to advertise more effectively than employers.
- ★ Consulting and interviewing services are available in special situations.

Whenever *quality* counts, regardless of the salary involved, contact

### *Personnelle Placement Service*

35 AVENUE ROAD, TORONTO 5

Mrs. Betty Smith, Manager

WAlnut 2-3157

my work is both challenging and satisfying. This can be attributed to the complex machinery and control apparatus which it is one of my duties to instal and maintain in our plant . . . also the friendship and respect of my superiors all combine to make my work more pleasant and rewarding."

Mr. Craig feels that the timing of automation is good. "At some other period in our history, automation might have caused great concern in terms of employment and potential markets. But we could not have planned it better had we had the opportunity. The tremendous improvement in automatic machine methods now taking place, comes at a time when a relatively low number of people are being added to our national working force. The young men and women now coming of age and entering the working force were born in the depression years, when the birth rate was low. It will be

ten to twenty years before those born since the war become workers. We will add many millions of older people and children to the population during the next 20 years, but relatively few to the working force. Our population is growing fast at both ends, but slowly in the middle."

Mr. Craig concluded his talk by saying that in automation lies an even more effective use of people, a greater satisfaction of job, greater rewards, and a bigger share for all Canadians of the good things of life that manufacturing efficiency will provide in the future.

---

#### **Alexander Macdonald Mackenzie**

We learned with regret of the death on January 30 of A. M. Mackenzie, Assistant Vice-President, Labour Relations, Bell Telephone Co., Montreal. Mr. Mackenzie had

for FASTER, more ACCURATE **PERSONNEL CONTROL**

Consult

**VISIrecord®**



THE WORLD'S FASTEST VISIBLE RECORD KEEPING SYSTEM



*Saves Time*  
*Saves Space*  
*Costs Less*

Visirecord systems are now in operation in the Personnel Departments of scores of Canadian Companies. No thumbing through blind files — no pull-out trays — Visirecord lets you see the record you want at a glance — You can keep an employee's complete history on one card under control of one operator.

**Visit Our Exhibit at Your Annual Conference**  
**Hall A, Royal York Hotel, Toronto, April 26 & 27**

**VISIrecord®**  
OF CANADA LIMITED  
266 KING ST. WEST—TORONTO

Branch Offices  
and Distributors  
Coast to Coast



## 11<sup>e</sup> CONGRÈS DES RELATIONS INDUSTRIELLES

les 16 et 17 avril 1956 au  
Château Frontenac

### La Stabilité de L'Emploi

- Paradoxe du chômage en période d'expansion économique.
- Progrès techniques, transformations des marchés et leurs effets sur l'emploi.
- La mobilité de la main-d'oeuvre. Caractère saisonnier de l'embauchage.
- Les effets du chômage sur certaines structures sociales.
- Mesures de stabilisation émanant du secteur public canadien et la stabilité de l'emploi.
- Mesures de stabilisation adoptées par le secteur privé de l'économie canadienne.

Inscription \$20.00

Congrès Des Relations  
Industrielles

2, Rue De L'Université,  
Québec

just retired from the company on December 30, and after a distinguished career in industrial relations with the Bell. He was a past president of the Montreal Personnel Association.

---

### Five Things Wrong With Labour

High on the agenda of topics spotlighted at the Institute on Industrial Relations put on by the National Association of Manufacturers last month in Florida, were five labor union abuses which NAM believes need immediate attention from industry. They included: compulsory unionism; violence and racketeering; non-productive "make-work" and "featherbedding" practices; union monopolistic tendencies; and the misuse of union funds for political purposes.

---

### Personnel Women to Meet in Philadelphia

The international Association of Personnel Women is getting ready for its sixth conference to be held at the Warwick Hotel in Philadelphia on April 19, 20, 21.

The association has a membership of over 750 women professionally engaged in industrial relations or personnel activities throughout the United States and Canada.

Anyone wishing further information may get it by writing Mrs. Kay Brownlee, Conference Chairman, 1122 Chestnut St., Philadelphia 7, Penna.

---

### Community Relations

When Canadian General Electric Company Ltd. revised its group insurance plan, it invited the Peterborough County Medical Society to visit the works there and hear about the new plan.



# The Group Oral In Canada

by Neil A. Macdougall,  
*B.A.Sc., P.Eng.*

AN INCREASING number of Canadian companies are experimenting with the group oral, or group interview. Since this promising technique was first introduced here five or six years ago by the Civil Service Commission, it has been employed by Brazilian Traction, Light & Power Co. Ltd., Lever Brothers, and Dow Chemical of Canada Ltd. The R.C.A.F. regularly uses the method for aircrew selection.

The Civil Service Commission has used group orals for the selection of junior administrative trainees, organization and classification officers, and in a promotion competition for selection officers.

Developed to supplement the individual interview, the group interview is given to a number of candidates at one time. These men discuss an absorbing topic while the selection committee sit around the periphery of the room, noting the performance of the participants but taking no active part in the discussion. The similarity to the situational testing, described in the January 1955 issue of this journal and satirized in Sir A. P. Herbert's novel, "Number Seven", will be noticed.

The group interview lends itself particularly to tests for supervisory, sales or administrative positions. It is intended to measure with greater definiteness and in closer detail than the individual interview those traits which are essential to the effective performance of a supervisory job. (Alas, not everyone agrees on what those traits are.) Properly conducted, the group interview brings out such factors as aggressiveness, initiative, poise, adaptability to new situa-

tions, tact, ability to get along with others, group acceptability of the individual, social awareness, alertness to group attitudes, feeling for interaction taking place, self-control, leadership, public speaking ability and reaction in front of a group.

It is ideally suited for the selection of personnel who spend a large part of their time in conferences. In this instance, the interview so closely simulates on-the-job performance that the technique's limitations are minimized.

## Experience at Brazilian

When personnel consultant for Brazilian, Traction, Light & Power, the writer introduced this method in 1952 for selecting young professional engineers. These management trainees would fill technical positions in Brazil initially, but were expected to rise to key jobs in the company's 41,000-man subsidiaries.

The only member of management known to the applicants was the moderator, who welcomed them and started the meeting by telling a little of his background. Each of the applicants was then asked to introduce himself. This method was used to put the applicants at ease, and to further identify them to the examiners, who had been supplied with a seating plan.

A mimeographed sheet at each applicant's place warned them that the moderator would not participate. "He will neither act as chairman or contribute to the discussion. His function is to offer recommendations to the group as a whole or to any participant, or to pose questions.

In other words, he is there to pitch the ball, not bat it."

The discussion problems used required no previous knowledge by the applicants. Here is a sample problem, taken from real life:

Following the promotion of your Vancouver sales and application engineer to assistant general sales manager, Mr. Carter, a less experienced but equally productive man, was assigned that territory.

Carter displayed such promise in his new job that your only formidable competitor made him a standing offer of employment.

Carter had been on the new job but a few months when some electrical equipment he had installed exploded. The customer, one of your largest, demanded his discharge on threat of losing their annual account of \$2,000,000. An investigation by a consultant revealed the accident had been caused by the structural failure of a part which had escaped inspection in your plant.

As president of the company, what do you do and why?

The problem should be so compelling that artificial barriers between group members break down. In fact, it is such an important part of the procedure that problems should be tested before the interview to see that they will provoke a spontaneous discussion of sufficient length. A problem in which the members are "ego-involved" is best. For example, if the group is made up of university graduates and practical men, they might debate the value of a university education.

The time for discussion varies from 30 minutes to one-and-one-half hours. During this time, one of the candidates may emerge as conference leader, sometimes only after the group has spurned a more aggressive but less sensitive man.

The qualities of leadership which

are sought, and so frequently revealed in the test, should emerge naturally. The reliability of the test is directly related to the lack of recall of the presence of the examiners.

Being so much more complex than the individual interview, the group interview requires more careful observation. Candidates can sometimes register a false impression by their superficial remarks or regurgitation of professors' platitudes.

### Shortcomings

Canadians who attended the Civil Service Assembly Annual Conference in Cincinnati in October, 1955 were warned of the technique's shortcomings. One study of the group interview showed that when scores on specific traits for any given applicant were ranked from high to low, and then compared with similar rankings of other applicants, certain traits appeared consistently near the top of the lists, while others appeared consistently near the bottom. This tendency was true for all applicants, superior and inferior alike. Examiners were frequently lenient in rating certain items. Qualities rated most leniently were degree of poise and self-confidence; tact and courtesy; degree to which candidate is a likeable, friendly person. The qualities rated most severely were leadership, constructive imagination, ability to summarize ideas, degree of mental flexibility, and supervisory potential.

The latter set consists of the more general or intellectual items. Perhaps standards for these were set higher unconsciously.

This problem can be reduced by appraising applicants on fewer traits. Aside from the difficulty of getting the examiners to agree on the definition of the 19 traits used in the experiment, one wonders if an hour-long interview will permit

an intelligent appraisal of many when several candidates are being observed.

A rating form used at a demonstration to the Ottawa Chapter of the Civil Service Assembly used only five factors: personal relations, comprehension, language, judgment and appearance, manner and bearing. Each candidate was rated from zero to 20 on each trait.

Examiners were expected to record significant remarks and attitudes. These were useful during discussion later when the committee rated each candidate relative to the others. Some firms have tape-recorded the interviews as well. With so many ratings to make on four to ten people, the examiners need at least an hour to appraise the candidates.

### **Greatest Limitation**

The very process which reveals traits not easily seen otherwise is also the group interview's greatest limitation. A mature and skilled selection committee is essential. Says O. A. Lefebvre, director of personnel selection, Civil Service Commission, "Group orals may be dangerous instruments in unskilled hands; more so than the individual interview which is not too easy to manipulate."

He feels that there should be between four and eight candidates. In fact, he says, it can only be used in competitions where the candidates are limited in number. After candidates have been eliminated following scrutiny of letters of application or interviews at the universities, a firm with wide-spread operations may be left with small groups of candidates in the metropolitan centres or university towns. To bring these candidates to central points for a series of group orals would be costly. If more than one group oral were held, one would still be faced with the problem of trying to evalu-

ate how any individual would have performed had he been a member of a different group.

Mr. Lefebvre feels that the group oral is effective only for special types of positions and when the number of candidates is limited. When the candidates are well known to the judges, it is not too effective. It is doubtful whether active or indifferent participation in an hour of discussion will alter the personal impressions already in the judges' minds about one or several of the candidates. It may also produce a biased assessment of a more timid candidate who weakly participates in the discussion either because he fails to put himself forward or because he feels unfamiliar with the subject in question; otherwise, he might possess strong potential qualities that could be easily developed when put to test or after training, Mr. Lefebvre concludes.

The first time the writer used this method, each of the candidates was asked to complete an anonymous form giving his reaction. We had wondered if the use of this technique would have an unfavourable effect on applicants. To our pleasant surprise, the reactions were not only favourable, but in many cases, wildly enthusiastic. Although the candidates admitted to being nervous, several volunteered how interested and pleased they were at getting this opportunity. They felt that they were getting a fairer chance to show their abilities and aptitudes.

Perhaps some of this reaction is due to their being interviewed by four senior executives, as well as participating in the group interview. Such a plan assures good selection, but is very time consuming. Many executives prefer to delegate this all-important job to a tame psychologist, and accept his recommendation, although his tests may not have been evaluated.

Rating Scale for Factors

Unsatisfactory    0 - 11  
Satisfactory       12 - 15  
Good                16 - 18  
Outstanding       19 - 20

RATING FORM

Group Oral Demonstration  
Administrative Officer - Research Branch

---

RATING FACTORS

Candidate 1      Candidate 2      Candidate 3, etc.

---

Personal Relations

Look for evidence of: tact courtesy, restraint, persuasiveness, sense of humour; ability to work co-operatively with others; ability to take the lead without giving offence; attitude towards people as individuals or groups (implied as well as stated)

---

Comprehension

Look for evidence of: readiness and keenness of understanding questions and their implications; constructive imagination; ability to understand the ideas and views of others.

---

Language

Look for evidence of: good vocabulary and diction; clear, precise, logical presentation of ideas; ability to arrange ideas well; general forcefulness and power of expression.

---

Judgment

Look for evidence of: soundness of conclusions; awareness of practical and realistic situations; ability to reason logically; breadth of viewpoint.

---

Appearance, Manner, Bearing

Look for evidence of: poise, self-confidence, alertness, neatness and appropriateness of dress; maturity of emotional control; general impression of friendliness and approachability.

---

FINAL RATING

---

PASS MARK: 12 or more on  
                  each factor.  
              70 or more overall.

# Recruitment and Management of Personnel

*(from the point of view of Organization and Career Planning)*

*by Clarence H. Fraser*

In 1944, some twelve years ago, four Canadians were invited to Washington to talk on this subject before the Society for the Advancement of Management. One of our team-members was George Jackson, then Chief of Organization for our Dominion Civil Service Commission. We presented our subject as "The Cracker-Barrel Approach to Manpower Planning", receiving a most cordial reception from some hundreds of our American cousins, engaged in both public and business administration during those active days in that great capital.

At approximately the same period before that, back in 1933, the International Management Institute, Geneva, published its Study and Report on Personnel Rating, under Public Administration; Studies in American Practice. This pioneer work by Major Lyndall Urwick, indicated that personnel costs formed about 63% of the total expenditure on public administration in America— and said prophetically "It is obvious that any endeavour will be directed chiefly towards personnel management". That pioneer work followed by the work of The President's Committee on Administrative Management, "Personnel Administration in the Federal Service" 1937 formed valuable background for those talks at Washington. They are valued references for the student of person-

nel development through public administration.

I should like to focus on the dynamics of job changing and human development within organizations for two reasons. Such "recruiting" of existing employees for new openings frequently is more common than new hirings. Also, experience with handling internal change governs what we do with new recruits.

## **Changes in the World of Work**

Up to relatively recent times jobs were more visible, more stable, and generally broader in scope. Today, especially with the tremendous growth of service trades, paper work, and large-scale activity, many jobs are less visible. For example, it is hard for a stranger passing the great Confederation Life Building to see the jobs within that structure. Many jobs are also less stable, in their nature and content, for what is called technological change is ripping work systems apart and putting them together in new shapes. In many instances jobs are narrower in scope. During the war years we deskilled many of our production jobs, especially in the interest of high-speed training and quick production. We have kept on doing this since the war, over the past decade, accompanied by increasing mechanization and automation.

The young person facing the world of work to-day is perplexed as he or she searches among these thousands of relatively invisible, unstable, and limited jobs for some-

\*Clare Fraser of the Bell Telephone Co. of Canada, Toronto, is probably Canada's outstanding authority on Career Planning. This is the substance of a recent talk to the Institute of Public Administration of Canada, Toronto Branch.

thing which at least may lead toward a life-work career. As I see it the specialists in the field of vocational guidance can serve usefully at the launching platform, but from that point on someone else must take over. The pilot may guide the ship down the river, but as it comes out through the gulf into the North Atlantic the ship's navigators must assume direction. With this metaphor in mind I am going to present the subject of life-work career planning in terms of what those who are responsible for directing the course of ships call navigation, and what those who are responsible for directing the course of institutions call administration. In other words my approach to this subject of career planning to-night is the administrative rather than the technical or specialized approach of the occupational analyst, the vocational guidance counsellor, the psychologist, or psychiatrist. I take this approach for two reasons: (1) the members of this Institute are students of administration, and are met here to-night to consider this aspect of thought and experience, (2) because I judge that the technical or specialized approach has been over-emphasized under the concept of personnel selection in the armed forces and business without adequate regard for the administrative process through which any technical specialty must ultimately work, however august or distinguished the technical specialty may be in its own right among the sciences and the arts.

The application of administrative skill to life-work career planning is still uncommon. During the war years when I spent some considerable time in the war plants of this country I found frequently a fairly elaborate system of recruiting and employment, partly to meet the regulations of the National Selective Service system—and often specializ-

ed initial training—but rarely among top management and departmental or middle management any clear idea of their going manpower situation. Perhaps I should say their coming and going situation. For example, in one large plant the top management did not know within one thousand people how many they had on the payroll. In another case, to meet my inquiry the general manager sat down with me to count from payroll records the number of men and women he had in his various departments. As to who they were, what they were like, or what their skills or interests were he did not have the foggiest idea. Yet as we walked through the plant he knew every machine on the floor, had a clear picture of the work in process, and had his unit costs under continuous scrutiny. I do not say these things to criticize top management or departmental management. I am simply pointing to the fact that our administrative approach to personnel development and manpower utilization in a realistic sense is still spotty and relatively undeveloped.

### Definitions

Now—and still by way of introduction may I clear the air on how I am using the term administration, and the idea of the administrative approach. In your Institute I assume you have been studying and discussing the work of some of the more recent writers in this field, such as Comstock Glaser against the work of the old master Henri Fayol, and with reference to our helpful contemporaries Colonel Urwick and Chester Barnard and others. You have developed a capacity to use any one of a number of thought systems or conceptual schemes and translate from one to the other. That knowledge makes me feel better, for whatever terminology I may use,



you will be able to pick it up and put it in the proper context.

You will understand my approach then, when I say that I intend to follow the concepts of Fayol and Urwick and the ideas developed through the work of the British group in their Institute of Industrial Administration where administration is treated as the "synthesizing function" by which the functionalized operations of an institution are guided and directed toward an objective, through the processes of forecasting and planning, organizing men and materials and information, coordinating effort, and controlling the process and results of activities by measurement and action.

This view takes us somewhat away from some of the North American thinking on administration, when I suggest that we look at the subject through the eyes of Fayol to whom this function of administration is not the prerogative or work or action of top management only, but is a process that permeates the organization at all levels, and through all its functionalized and generalized operations.

I prefer this approach to some of the current doctrine in the United States because it explains to me more clearly the experience I have had personally in working with life-work career planning from the administrative angle for the past sixteen years, and the recent and current experience of others in this country and the United States who are putting the ideas we shall discuss to the test of experience and thought.

So much for a general beginning. Now may I proceed to the heart of the subject by stating the three parts into which I have divided this theme:

1. Some recent and current experiences in the Bell Telephone Company of Canada.

2. For the second part I shall offer a recapitulation of experience against administrative theory, as a basis for your discussion.
3. And third, in conclusion I shall offer some practical recommendations for those who wish to proceed to put into experimental practice some of the ideas we shall consider.

### **I. Experience in the Bell Telephone Co. of Canada**

Experience with life-work career planning in the Bell Telephone Co. of Canada goes back a long way. Actually I have not been able to identify its point of origin, but I suspect it became active in its elementary stages at about the time when the operations of the company became functionalized into three principal operating departments, which was about 1911. These three major departments, the Commercial, responsible for sales and business service, the Plant, responsible for the construction and maintenance of all plant and equipment, and the Traffic, responsible for the actual completion of telephone connections, and the other smaller but complementary departments such as Accounting, Engineering and others, required people, over the long pull, suited to the requirements of their operations. Some of you are probably familiar with what happened to the organization structure of the Bell System operating companies in that 1910-11 period through Russell Robb's "Lectures on Organization" so highly recommended for their clarity of thought by Harry Hopf in addresses given by him before meetings of management societies in Canada and elsewhere.

Between that time a generation ago, and now much has happened leading up to this statement given by the past president of the company, Mr. Fred Johnson, in his ad-

dress, "The President Looks at the Personnel Department", ten years ago, before the Montreal Personnel Association—"It is our experience—that individuals like to know how they are getting along. Most worthwhile employees like to feel that they are given fair consideration when a better job is available. If that is the case, it becomes the responsibility of management to provide itself with objective data about each individual for placement purposes". To attempt to describe even the major steps taken within that generation towards life-work career planning in the Bell System and in the Bell Telephone Co. of Canada would exhaust more time than we have available. However, the more recent experience in which I have participated must be considered against the facts of the 45 years preceding.

Sixteen years ago therefore, when I moved from our Company Headquarters at Montreal to Toronto, to the Western Area Headquarters of the Plant Department, I went there conscious of the fact that we had history working with us in the development of a more integrated life-work career development method.

The first matter I was asked to look into was the problem of how best to select and develop men for foremanship and management work. After a few months spent on this project it became clear that we could not abstract foremanship out of the network of all the jobs and all the people. Sooner or later we must consider everyone, not necessarily as a potential foreman, but as an individual, about whose present development and future career the management group should be directly and continuously concerned. Men for foremanship would grow out of this body of people.

This led directly to the idea which became our slogan "a plan for every

man—to develop every employee to the limit of his capacities, his interests, his opportunities". Once that idea became sharp and clear as an administrative objective, the ways and means evolved, and they are still evolving.

Those of you who have read my papers "Personalizing the Process of Placement" in the Summer and Autumn 1942 issues of *ADVANCED MANAGEMENT*, and "Personnel Development Planning" in the November 1944 issue of *EXECUTIVES' SERVICE BULLETIN* of the Metropolitan Life Insurance Co. and more recent statements are acquainted with the road we have travelled and some of the discoveries made. However, for those of you who are not familiar with these things I shall sketch them briefly.

We started by sitting down in small groups, with the operating head of a unit of organization, and his immediate subordinate officials, and talked about his men, one by one. Gradually we found that there was an habitual pattern to the discussion. We considered first the man's present condition in health, in performance of his job, in his personal relations with other people; we then made an estimate of his Target, in terms of the likely long-range potential of the man; we then considered ways and means which would take the man closer to the Target, within the next twelve months. Naturally, if he were already on his Target, we discussed how he might be kept healthy, effective and happy while remaining there. In the year 1941 we covered only a few hundred men and women, mainly in the craft forces.

But now we are covering the great bulk of our non-management people, or a total estimated fifteen to twenty thousand, and some thousands of management people in all parts of the business, in all of our hundreds



of locations, and at all major levels of organization.

In the words of our present president Mr. Thomas W. Eadie, "What we have done has been to put the full development of men, and the full development of manpower up to the total organization as one for everyone to work at continuously and toward sound solutions".

From the administrative viewpoint this process now guarantees, (1) that no member of the organization is overlooked in sympathetic and practical consideration by his immediate supervisors, and by representatives of the higher levels of the organization, including personnel services representatives, (2) that local management is protected and sustained in taking action as a result of recommendations and plans arising out of these discussions, (3) paper work is kept to the minimum, (4) for manpower planning purposes there is always a reasonably up-to-date picture of the manpower potential of the organization, to meet present and future work loads and emergencies based on at least an annual review of every person, (5) every employee can now know where he stands in the group judgment of management people responsible for him, and if he wishes what opportunities the future holds for him, with such management views being modified by his own expression of interests and self-appraisal.

Experience in other organizations parallels our own thought at a later date. The Hydro-Electric Power Commission of Ontario; the Maple Leaf Milling Co; the Dominion Stores organization; the Steel Co. of Canada; the American Viscose Corporation; and many other business and public organizations have adapted the ideas and methods we started with into their own versions and models. I refer to these other experiences because they validate for me the strength of this approach

which comes evidently from the three elements of simplification, decentralization, and participation. I think you, who are students of the social services, will see our use of modern communication techniques of the conference, the interview and other aspects of group dynamics as a common link in inducing collaborative effort on a large scale.

## **II. Recapitulation of Experience in Terms of Administrative Theory**

As I stated at the beginning of this paper I have followed the theory of Henri Fayol in use of the term administration. As you know he classified the activities which occur in organizations into six categories consisting of—technical, commercial, financial, security, accounting, and administrative operations. According to his definition:

"To administer is to plan, organize, command, coordinate and control.

To plan means to study the future and arrange the plan of operations.

To organize means to build up the material and human organization of the business, organizing both men and materials.

To command means to make the staff do their work.

To coordinate means to unite and correlate all activities.

To control means to see that everything is done in accordance with the rules which have been laid down and the instructions which have been given.

Administration, regarded this way, is not a personal privilege or duty of the manager or directors of a business; it is a function which, like the other essential functions, is carried out by all the members of the organization, and it is quite distinct from the other five functions.

It is important not to confuse administration with management. To

manage an undertaking is to conduct it towards its objective by trying to make the best possible use of all the resources at its disposal; it is in fact, to ensure the smooth working of the six essential functions, but the managers of big concerns spend so much of their time on it that their jobs sometimes seem to consist solely of administration".

I realize that this use of the terms administration and management differs from the definitions used by other theorists who tend to identify administration with policy determination and management with execution of policy. My decision to follow Fayol's concepts is due to the care with which he originally defined his terms, and the succeeding work notably by Urwick in building a synthetic system of thought on administration, and in comparing the treatment of the subject by Fayol with that of Mooney and others. In taking this choice I should mention that I have found great value also in the work of Ordway Tead, and his adaptations of definitions from the early work of the Taylor Society (now combined with the Society of Industrial Engineers into the Society for the Advancement of Management); in the work of Comstock Glaser dealing with administrative leadership, particularly in the public service; in the penetrating analysis of Chester Barnard into the organic and cooperative structures of organizations; and in the dynamic thinking of Mary Follett, Elton Mayo and others. In fact it is to the work of these later interpreters of the activities of organizations, by contrast with the more structural views of Fayol and Urwick that I owe the blend of thought that has given our treatment of the "plan for every man" a greater degree of balance and perspective than might otherwise have been the case.

Despite these differences in terminology and approach it seems to be generally agreed among all students of management and administration that planning and control are distinctive functions. In fact Appleby suggests that administration involves two basic factors, planning and control.

### Planning

While we follow out Fayol's idea that administration "is carried out by all members of the organization", and therefore planning as a principal activity of administration is also carried out by all members, we realize that planning for particular purposes of the organization is carried out at specific points in the organization structure, by certain specified persons, and the various steps in the process of planning must be taken at certain definite times.

In regard to particular purposes therefore, we are reminded by Urwick that for all planning there must be an objective, that the very idea of making a plan implies that it is a plan to do something. Accordingly in theory as in practice "a plan for every man" is not a complete objective until the purpose is added—"to develop every man to the limit of his capacities, his interests and his opportunities". While, at first glance, this may seem a minor point, actually it is of great importance. Representatives of some organizations with whom we have discussed this approach to life-work career planning frequently say, "Oh, we're doing that ourselves; we rate our employees every year. We have a plan for every man". But when we ask, "Does that mean that you have a long-range Target for every man, periodically modified or renewed; that you have actually tried to determine his possible and desirable future, and have a plan to develop him towards it?" usually they answer, "No. We have a plan for him

to take some more training in his present job, or to see the doctor, or to receive a pay increase". You will see what a vast difference there is between these two kinds of planning, the difference being due to the nature and sharpness of the future objective. Actually, in the organizations using the management method I am talking about, it is the target objectives that lift the organization out of plodding pedestrian kind of planning for people only at their current level of attainment, performance or status, up to a high plane of never-ending effort on the part of the entire organization, in guiding and helping people toward their goals.

Another important feature should be noted in connection with this idea of the importance of an objective in planning. In using the slogan "a plan for every man" we emphasize the idea of *every* man. Some persons miss this point. They say "We know who our next foremen are going to be. We have them moving through the plant now. We singled out twenty per cent of our best men for that training". A comment which always provokes me to ask "What's happening to the eighty per cent who weren't singled out?"

In the method we use, specific planning for and with individuals, for both the long pull and the short pull, is carried out by the men at the operative management levels of each unit of organization. The head of this particular group is located normally at the point we call the "planning and control" centre for that unit, commonly being the supervisor twice removed from the employees for whose development and use the planning is being done. The type of planning carried on at such points is what Harlow S. Person identifies as Operative Planning.

The theory on this type of planning which I have found particular-

ly useful has been that developed and applied in his international practice by Wallace Clark in the field of shop planning related to central planning. To quote him "Planning is most effective when it decentralizes responsibility yet maintains overall coordination and control. The methods of Central and Shop Planning secure this proper distribution by building the techniques into every working level of the organization". Let us bridge this bit of theory to practice. When in the method we follow, a Personnel Review Group Discussion is held, the administrative head of the group reviewed cannot avoid following that discussion with planning for the follow-through on the recommendations made. As he does so he works with a representative of central planning for manpower utilization.

Under this method man-power planning is forced upward in an organization. It can move in no other direction. By reverse pressure planning with the individual employee for his current adjustment and development in his present job is forced downward from his immediate supervisor to him.

This actual experience corresponds with the theory that the more specific and the lesser details of planning can be decentralized down to the point of action, while the more general planning, particularly when a number of units of organization are involved, should be done at higher levels of an organization or at central points. However, the theory I try to follow is that wherever possible the planning should be "from the bottom up", because I think therein lies the strength of democratic institutions.

### **Control**

The theory we follow in the planning aspects of this method finds its close counterpart in the theory we follow on control. Here we have

two views. The first is that bearing on the points in the organization at which control is exercised. The second has to do with the two types of control activity, the use of "going information" (the basis of standard costs and flexible budgets) and the use of "post-mortem" investigations and reports (the basis of so many inflexible and involved accounting systems). Actually in the method we follow in controlling this life-work career planning activity we use both by continuously asking ourselves the questions, "How are we doing now" and "How did we do the day-before-yesterday?"

In regard to the points in the organization structure where control is exercised we follow the line of thought expressed so clearly by Mary Follett that control is always present at the point of action. Actually the control of a local situation in dealing with the individual must remain between that person and his immediate supervisor, because they are the only persons who can be fully informed in regard to the local situation. If then, the immediate supervisor is working in accordance with a current plan of development of the individual, which both persons have helped to shape, and if that plan has been in part developed and certainly approved by higher management with reference to "target thinking" through the device of the Personnel Review Group Discussion, it follows that the location at which the immediate supervisor and the employee meet on the job is the natural point of local control. This is so obvious a fact that it is often overlooked.

Supplementing the local management control centres, which I have identified as being usually at the point of the Supervisor Twice Removed, the work is supplemented in turn by the Records and Statistical Services centres, through which in-

formation for current control and future planning purposes is processed and supplied. The formal planning and control centres are thus kept informed from two sources; first, by information of a current or going information nature coming up the line, or sought by higher management levels going down the line to ask for it, or to obtain it by their own personal investigations (which some senior executives do not hesitate to do); and second, by information of a post-mortem nature supplied normally by fact-gathering agencies to them either directly, or through a staff official associated with the unit concerned. Likewise, when top management wants information it is obtained in the same manner. However, such general information needed for top management purposes generally is summarized and combined for a number of units of organization.

### III. Practical Recommendations

If any of you would like to proceed to introduce this conception of "a plan for every man" as basic to organization and life-work career planning in your organization there are a few points that might help you. I shall summarize them as propositions:

1. Move into action slowly but with steady pressure. Do not rush your organization into action. Remember that if you let a street car trolley go with a jerk it automatically stops.
2. Decide how far you intend to go in encouraging the employee to "write his own ticket".
3. Decide whether any employee group organization is going to have a say in making appointments to jobs.
4. Identify the planning and control centres in each unit of your organization. Some or-

ganizations do not know where these centres are.

5. Put a man on it to coordinate the activity, or take on this job yourself.
6. Clarify your organization lines of responsibility, as between units discharging the principal operations, versus services units notably of manpower planning, placement, training, medical, records.
7. Provisionally design the procedure including records, *but do*
- not yet show them to your people who are going to do the job.* Remember, this activity must grow out of their personal experiences.
8. Induce some operating head to try a Personnel Review Group Discussion, without forms or formality.
9. Go on from there.
10. After a while take a vacation and size up what should be done next. No one can tell you in advance.

## Payment For Time Spent By Employees In Union Meetings

by C. P. Chaston\*

Shell Oil Company of Canada, Limited, has made a survey of company practice in regard to payment for time spent by employees in union meetings with management and where management is not involved.

Eighteen major industrial companies or similar organizations participated. The results follow:

### (a) PAYMENT OF STRAIGHT TIME

(1) Twelve of the eighteen pay at regular straight time rates for time spent by stewards in administration of the agreement. Limitations range over "reasonable length of time"—1 hour per steward per week—5 hours per steward per week—2 hours per working day. Permission of the immediate supervisor to leave the job is normally required.

Among those who do not pay regular rates is one company which pays 50% of earned rate up to 3 hours per week per steward.

(2) Nine of the eighteen pay for time lost within regular schedule by employees engaged in negotiating meetings with management.

One of the nine who pay does so only when the negotiating meetings are held on company property; another limits it to a maximum of five hours per day. Another specifies the company pays only if it calls the meeting. Three others cut off pay immediately conciliation or arbitration is resorted to by either party.

Some questions raised in reviewing various company attitudes on this question appear to be:

- (a) Should a company, in principle, pay employees for time spent "opposing" it, especially where the union has funds?
- (b) Shouldn't the union carry its weight, financially?
- (c) Don't some unions, for reasons of independence, prefer a "leave of absence without pay" for the time involved, for the employees concerned?

\*Mr. Chaston is manager, Industrial Relation, Shell Oil Co. and Associate Editor of this Journal.



(3) Fourteen of the eighteen pay time of the employee relieving another to enable him to participate in negotiating meetings with management.

The impression arises, from review of the various answers, that in many cases direct replacement is unnecessary and, if directly, usually only involved straight time for the relieving employee. Several companies do specify that usual overtime rates would be paid by the company to the relieving employee, if necessary. Again the reservation appears in three instances that relief would not be paid for where negotiations proceed to conciliation or arbitration.

(4) Sixteen of the eighteen pay time of employee lost within regular schedule (including union officers) in discussions of grievances with management within reasonable limitations (e.g. 8 hours per man per calendar month—not at arbitration stage).

Of the two qualified answers, one company pays only the average earned rate for 50% of the time, to varying maximums. The other company believes that there have been very few instances where the company's interest in the meeting has been as great as that of the union and the latter should (and does) pay for any time lost by the employee acting for the union on the grievance.

(5) None of the companies surveyed specifically provides that it pays employees for time spent in union meetings *not* involving management.

#### (b) PAYMENT OF PREMIUM TIME

(1) None of the companies surveyed pays premium rates for time spent *outside* of regular schedule by employees engaged in negotiating meetings with management.

(2) None of the companies surveyed pays premium rates for time spent *outside* of regular schedule by

employees (union officers) in discussions of grievances with management.

(3) Eight of the eighteen companies surveyed would or do pay premium time if necessary, as specified in the union agreement, to the employee *relieving* another to enable him to participate in negotiating meetings with management. —

### Canadian Management Council Offers Its Help

In a brief to the Gordon Commission the Canadian Management Council pointed out the need of a central co-ordinating body if Canada is to make the maximum use of existing facilities for the dissemination of management knowledge.

The Council pointed out that the future of Canada's economy depends to a very considerable degree upon the quality of its industrial leaders and the calibre of its executives in business. It pointed out that there is going to be a serious shortage of adequately trained executives unless the proper facilities are available.

The necessary facilities for education in management are, according to the council, student training, post graduate training, theoretical refresher courses, and advancement training.

The greater part of the appropriate reading matter is published in the United States. But although there is an ample supply of good reading, it has to be sought by the student. There is no centre in Canada to which the student or executive can go in order to make a selection, or to obtain advice as to the right form of reading for his particular need.

The council asked the commission to give official recognition to the urgent need for accelerated management training and indicate that the Canadian Management Council offers a co-ordinating body for such facilities.

# Public Relations and Labour Relations

by Lloyd Hemsworth\*

Nowhere in the field of business endeavour, it seems to me, is industry's attitude so little understood by the public as in the area of Labour Relations. This is so, I believe, because the public fails to identify its own interests with what it considers to be simply a family feud.

The public interest can only be well served and protected when industry is able and encouraged to produce and prosper. Our economy, the revenues of our government, our very standard of living, is dependent on the ability of business to convert our raw resources to useful products, to produce goods and services for our consumption, or for sale to consumers in other countries.

In the absence of a healthy business community there cannot be a healthy community.

What I have said is, "What is good for business is good for the country." That appears to be a reasonable statement.

But it is not much different from a statement made some months ago by Mr. Charles E. Wilson, now U.S. Secretary of Defence. He offered the opinion before a Senate Subcommittee (if my memory serves me correctly) that: "What is good for General Motors is good for the country." Such a hullabaloo was created over this expression of Mr. Wilson's that it was immediately condemned as the narrow opinion of Big Business, and, therefore, un-

worthy of consideration. But surely it is a true statement. If General Motors and the thousands of other corporations, large and small, which make up our community, do not prosper how can our community prosper?

But so potent is the present day influence of the bigotry against business that Mr. Wilson drew widespread condemnation—and almost lost his appointment. Business baiting has become such a vested interest of a large segment of our population that any expression of a businessman is immediately prejudiced and he lays himself open to personal attack.

On the other hand when the question of the public interest is raised union leaders are quick to exclaim "The public interest? Why we *are* the public," and few question their premise that their prosperity will assure a prosperous economy.

## Industry's Interest

This, then, is the first point I wish to stress. That is, that industry's interest is the public's interest, and the concern of industry's public relations should be to reassert this basic truth.

Now the place where the greatest confusion exists as to what is in the public interest is within the employee group itself. It is indeed strange, but nonetheless apparent, that the most severe attacks on industry—the greatest drive to establish an unfavourable atmosphere for business—are sponsored by employees or their organizations or agents.

\*Mr. Hemsworth is a former president of the Montreal Personnel Association, and this is an abridgement of a paper prepared for the Industrial Relations Seminar at Queen's last May.

For this reason I shall talk, in part, about public relations directed toward employees. This can be no more than a preliminary to the broad public relations problem, but it seems to me that it is the immediate one.

Every businessman knows that business has to serve the public interest or it ceases to exist. He knows that his prime job is the efficient organization of effort to produce the goods which the public wants at a price the public is prepared to pay. He knows, as well, that the necessity to develop new products, to improve his processes, to replace worn out equipment or to attract and hold equity capital demands that he sell his goods at a profit. Profit is the essence of the mix—it should never be the subject of an apology. As Mr. Samuel Gompers said many years ago: "The greatest wrong an employer can perpetrate on his employees is to fail to make a profit."

That business has been successful in serving the public there can be no doubt. Everywhere there is evidence of how remarkably the standard of living of every person in this land has improved in a few decades.

Businessmen take this all for granted and arduously concentrate on devising further methods of improving conditions. Almost without exception they assume that the rest of the public understands what business is accomplishing, what its motives are, and what circumstances are essential to its successful operation.

### **New Force in Community**

Whether this assumption was ever valid I know not. This I do know. In the last few decades there has arisen in our community a powerful new force. A force whose stock-in-trade is attack on business. I am referring, of course, to the oligarchy

of the trade union movement. When I state that the stock-in-trade of the union leaders is attack on business I am not referring to the inevitable conflict of interests between employees and employers as to how much will be paid for services rendered, or what pension or other fringe benefits will be provided. I am not talking about the terms of a collective bargain. Rather I am referring to the wholesale campaign waged by the labour leaders to discredit in the eyes of employees, and in the eyes of the public, every action of business leaders and to create such an atmosphere that business will be hamstrung and all progress will cease.

### **Automation a "Monster"**

The example of union-inspired attacks on management, and on the methods management has adopted in the interest of producing more at reduced cost, are myriad. But currently there is a great new propaganda campaign underway which I find even more disturbing. This current campaign is clearly calculated to discourage and retard the technological progress on which every hope for improvement in our standard of living depends. This campaign is based entirely on the psychology of fear. It is carefully designed by union leaders to frighten employees into the belief that the new machines which are being developed will make workers obsolete and leave them destitute. Employees are being told that "automation"—the new word coined to describe the new forms of methods improvement—is a monster arising in their midst to destroy them. In the words of Mr. Walter Reuther, unless action is taken the country will drift "along aimlessly into dislocations and disruptions, mass unemployment and catastrophic depression."<sup>(1)</sup> The Guardian, the Cana-

(1) Time 21st February 1955



dian organ of the UAW, has been devoting much of its space to this type of material. It is fast becoming clear to many employees that they must resist the introduction of improved methods or they will be standing outside of what Mr. Reuther calls the "workerless factory." Only the UAW can protect them from the loss of their jobs!

Now I suppose these utterances of Mr. Reuther's, and those of similar nature made by other union leaders, have gained or retained for them some support from the workers who have been frightened. I suppose this new disclosure of "the latest device of management devised to deprive everyone of a job" will give the union a great new issue and ensure it against membership apathy.

### **Make-Work Rules**

But the price the country will pay to guarantee the union its membership dues will be immense. Until this new campaign was launched there was some reason to hope that the old-time proponents of "featherbedding" and "make-work rules" were dying off, and the new labour leaders would be able to read the irrefutable story of history, and understand the basic lessons of economics. It has been decreed, however, that this is not to be, and the public will be expected to continue to endure the cost of tearing out the electrical wiring from a pre-fabricated house so that it may be re-installed on the site, or the cutting off of a threaded end of pipe so that it may be re-threaded on the construction project by a union plumber. For these are merely examples of past resistance to technological advance, now being given a new impetus by the attack on "automation."

It appears to me that management has a responsibility to counteract this vicious propaganda. If it

does not do so it will find its every effort to improve processes, to introduce labour-saving machines, thwarted. Industry and the public will be deprived of the benefits of lower-cost production, and employees will suffer from the stagnation that will result from a contracting rather than an expanding market.

The facts speak for themselves, they merely need to be stated so that they will reach employees and the public. If this is done effectively the weight of public opinion will forestall the damage that will otherwise most assuredly result.

Mr. Reuther has been citing the new engine block assembly line at the Ford Motor Co. as the classic example of automation resulting in loss of employment. He points out that 41 employees now perform the work previously requiring 117—and implies that the remaining 76 are walking Detroit streets. The truth reveals that Mr. Reuther will have some difficulty in finding any workers displaced in either Ford's foundry or engine plant. At the end of the month before last almost 25,000 persons were employed in these departments (where the greatest strides have been made in improving techniques) as compared with slightly over 23,000 employed in 1950. As a matter of fact, the total work force at Ford's has increased almost 50 percent since the post war modernization of plants and equipment started.(2)

Elsewhere the story is the same. The first that comes to mind is the dial telephone. You would naturally assume that this outstanding example of "automation" would have thrown thousands of telephone operators out of work; and the current propaganda on the subject would seem to confirm that assumption completely. But what are the facts?

(2) Figures revealed in a speech by Ernest R. Breech, Chairman of the Board, Ford Motor Company, reported at 35 LRR 594.

### Experience at the Bell

My friends at "Mother Bell" tell me that they are employing almost ten thousand telephone operators as compared to forty-five hundred ten years ago—an increase of 120%. Incidentally, a million and a quarter more consumers are also enjoying the services of the Bell telephone(3)—far in excess of the number that could possibly have afforded this service without the lower costs that grew out of improved methods.(4)

But this, of course, is not always the case in every industry and every occupation. Dislocations do occur in some instances, and men do have to change from one job to another. That has been true in farming for many years. With the falling demand for coal, employment in the Nova Scotia mines has also dropped off substantially and there is recent evidence of a mild decline in oil refining, for example.

Now where are these men to go? Has "automation" made it tougher for them than it used to be? Let's see what has really happened in the last two decades—say from 1931 to 1951—the census years. Well, here are the facts:

During this period the population of Canada has increased 35%. (This includes the addition of Newfoundland). But the total number

of jobs has grown by 42% (Newfoundland didn't add much here). But in the field of manufacturing itself—where automation has advanced most rapidly—employment has gone up 72%—more than twice as fast as the population increase.(5)

The record clearly shows moreover, that this rapid increase in employment has occurred chiefly because of mechanization—not in spite of it.

In a recent address Mr. Benjamin Fairless, now ex-Chairman of the U.S. Steel Corporation, drew attention to the consumer's stake in this union attempt to foster resistance to improved methods: "Suppose" said Mr. Fairless, "that all technological progress in the auto industry had stopped back in 1908, and that we were trying to build a 1955 car, at to-day's wages, with the tools and machines we used then. Such a car, if it could be produced at all, would cost well in excess of \$65,000! How many cars would there be on the road? And how many roads would we have? How many jobs would there be in Detroit, and in the oil fields, and in the tire making industry—or even in our steel mills for that matter?"(6)

In calculating the cost of an automobile built under the terms pro-

(3) By coincidence this is about the number of union members in Canada.

(4) The detailed breakdown of numbers of operators and telephones is interesting:

(5) Canada Year Book 1954.

(6) Speech delivered at Greater Johnston Chamber of Commerce meeting February 10th, 1955 Reported at 35 LRR 366.

Year	No. of 'Phones		No. of Operators
	Dial	Total	
1924	7,783 1.4%	536,848	—
1934	366,055 54.3%	674,439	3,252
1944	710,459 71.9%	987,530	4,526
1954	1,896,115 82.6%	2,294,458	9,982

These figures represent operations of the Bell Telephone Company of Canada and do not include other Canadian telephone companies.

posed by labour unions at \$65,000, Mr. Fairless has drawn a fantastic and unrealistic example. But like many extreme examples it does serve to focus attention upon the certain problem.

### **Union Policies Affect Public**

The public as consumers are vitally affected by the policies of trade unions. If the union leaders had been capable of enforcing a policy of resisting mass production techniques in the automobile industry forty years ago, the automobile today would have, at least, been reserved for a small minority of the population. Similarly, in the case of the telephone industry, the enforcement of make-work rules opposite telephone operators could have effectively stymied the conversion to the dial system and withheld the advantages of the telephone from tens of thousands of consumers.

Fortunately, in many areas of industry the unions in the past did not possess sufficient power to enforce these policies, much as they might have desired to. In other areas, however, where collective bargaining has a longer history, there is reason to believe that disruptive union policies have been effective. We can only assume from this that unless corrective action is taken they will have a broader effect to-day. I suspect, for example, that the adverse position the railways, and the railway employees, now find themselves in, results to some extent from the inability of the Carriers to take full advantage of improved methods of operation due to the resistance to change engendered by some of the Brotherhoods. The building industry has been unable to utilize new methods of fabrication, while at the same time the cost of older methods such as brick-laying has skyrocketed due to restrictive union policies. Here

may lie the real cause of the shortage of low-cost housing.

To-day the bargaining power of unions has spread into almost every industry, and their ability to enforce their policies is economy-wide.

Can the community master the problem that has been thrust upon it by this broadening of power that may permit unions to widely enforce disruptive policies?

There is reason to believe that the community is only now being called upon to face the full potential of union attitudes. And the community is, I suggest, poorly prepared to handle this problem. Many otherwise enlightened members of our community still regard unions as "under-dogs". To-day few unions are "under-dogs". Some of them are even "over-dogs". Others are quite powerful enough to take care of themselves. It is not generally realized that the present day status of the trade unions confronts the community with a *real* problem of controlling great concentrations of economic power and of seeing that this power is used with due regard to the public interest. So long as out-of-date pre-conceptions are widely held the new problems created by the rise of trade unions cannot be effectively met.

### **New Role**

This is the unfortunate role that management now must play. The responsibility for effectively off-setting the power of unions—whenever this power is being used to the detriment of the public—must be accepted by management. Of course this is not a completely new, but in many ways a traditional role of management. In protecting its own enterprise, and its ability to achieve maximum long-range profits, management has long been required to hold off the union extremes. But up to the present it has been possible to do this on a local or production-

unit basis. Moreover, up to the present the bargains have been largely concentrated on wage gains—which were made possible by post-war inflation.(7)

Now I suggest that there are completely new factors entering the picture which, regardless of what may have happened in the past, require an alteration in management's approach, to the end that management must have the support and sympathy of the public if union power is to be channeled toward constructive effort.

*First*—the end of inflation has substantially reduced the annual wage increase, or in any event made it so automatic that it no longer is a sufficiently effective incentive for continued union membership—hence the union leaders must create other issues.

*Secondly*—the unions have become tightly-run oligarchies. The paid officers previously were the agents of the members. Now they are responsible for both making policies and executing them. Every employer realizes to-day that the successful conclusion of negotiations demands that he first reach accord with the union professional, because now a tradition of blind acceptance of union policies by the union membership is firmly entrenched.(8)

How can management react to

this new situation in fulfilling its role of protecting the community and employees from ill-conceived union policies?

### Protection of Incompetents

Before proposing any solution I wish to digress for a moment. Everything I have said so far implies conflict between management and unions. That a conflict of interests must exist is, I believe, inevitable if the public is to be protected. The alternative to conflict is not co-operation, as so many of us hoped. It is now clear that co-operation as proposed by the unions is mere union domination. The only other choice is collusion. When collusion occurs between management and labour unions the public pays the piper—wages and profits are protected by an unduly high price level that burdens the consumer. In the words of Professor Wilbert E. Moore, "Sweetness and light can be carried to such a point that the whole structure becomes a Society for the Mutual Protection of Friendly Incompetents."(9)

In its own interests and in the interests of its customers, responsible management cannot afford the luxury of indulging in collusive agreements.(10)

How then is this problem to be met?

### Tear Down Curtain

The first step that management must take is, I believe, to tear down the curtain of secrecy which has been built up around collective bargaining. Collective bargaining must be done in the open and be subjected to the public scrutiny of employees. To enter into a deal, as so many of us have, with a union com-

(7) A basic question arises here as to whether the union's policy of insisting on larger wage gains than were necessary to off-set the post-war inflation did not do real damage to the community by withholding from industry money that would otherwise have been used to expand production facilities. The present pockets of unemployment might then have been avoided. If this is so we have a current example of how union policies may do damage to the community.

(8) Lest this apparently provocative statement be considered partisan compare such independent authorities as E. Wright Bakke in his essay "The Public Interest in Labor and Management Relations", and Sumner H. Slichter's "Trade Unions in a Free Society" as well as the "Report and Recommendations of the Labor Committee of the Twentieth Century Fund".

(9) Quotations from a paper delivered by Prof. Wilbert E. Moore (Princeton) at McGill Industrial Relations Conference 1955.

(10) Prof. Joel Seidman deals sharply with collusive agreements in his article "Responsibilities of Unions to the Public".

mittee to withhold all knowledge of discussion until the bargain is sealed, is wrong. It is merely playing into the hands of the oligarchy by permitting the passing on to employees of only that information which is useful to achieve endorsement of the policy the national officers have decreed.

The results of ensuring that information about union-management negotiations is known by all should be two-fold.

*First*, it will go a long way towards engendering some semblance of democracy in unions. If employees are kept informed of all the facts surrounding a bargain, they will be able to hold their executives to an accounting.

It is well known to those intimate with unions and collective bargaining that frequently union members have more influence with management than with their own leaders. This must be corrected by placing in the hands of the rank and file of union members the basic information that will dispel the distortions and half-truths relied upon by the oligarchy to push through their policies.

In addition, widespread knowledge of the results possible through bargaining will help because it will introduce much needed realism into the negotiations. It will also prevent workers from expecting too much from bargaining and will keep them from becoming bitter and disillusioned when bargaining fails to justify their hopes. Now I realize that democracy is not a way of life which can be imposed on the members of unions, or any organization, from without. All that we can do is to give the members a fair opportunity to develop democratic habits. The members must do the rest.

Parenthetically, of course, any hope for success in this connection is forestalled by the granting of a

union shop. For the union shop is primarily a device to protect union officers from criticism from within the membership.

Informing employees of bargaining developments and discussions is not enough. Employees must have a basic background of knowledge with which to relate the negotiation discussions and the policies pressed by their leaders. By every means at its disposal management must promulgate to employees the only philosophy that makes sense in this age of assembly lines and efficiency engineering. That philosophy is one of high continuous production, high profits in return for venturesome capital, high wages and steady jobs together with an increasing stress upon ever lowered unit costs.

The union membership meeting must be removed from the position where it is merely a medium for endorsing rather than forming policy. The economic factors involved in collective bargaining are sufficiently basic that we should be able to put them across. This is our one hope of making union leadership responsible—responsible to an alert, informed, interested rank and file.

The *second major step* that management must take is to establish a medium for providing the public (as well as employees) with the information that it needs to evaluate collective bargaining issues, and to analyze the claims and assertions made by union leaders. The need for this information is long overdue, and it is clearly apparent that management must provide it or the propaganda machine of the trade union leadership will have free and full sway in its efforts to confuse the public in the interests of a few paid union officials.

### Summary

In summary I would like to think that I have made four major points:



First, Unions do not and cannot be expected to operate in the public interest. They bear no responsibility to the public for the cost of the goods they produce, and will only be concerned with such factors when a situation becomes so acute that the enterprise is likely to go out of business. Even in this drastic situation the interests of the local union of employees is likely to be subjugated to the overall policy of the International Union (Witness the Renfrew Woollen Mill case).(11)

The primary *raison d'être* of trade unions is, in the words of one observer, to create "a special caste of privileged working people." My union friends emphatically deny this, and insist that unions are interested, at least, in raising the standards of all working people. Union membership, however, is sold to employees on the basis of achieving preferred treatment through membership.

Now everyone, including union members, knows that any one man in a crowd can get a better view of the procession by standing on a chair, but if they all get on chairs no one's view is improved, and there is no point in carrying a chair.

Unions cannot be expected to act in the public interest except in the narrow situations where the public interest coincides with the interests of union members.

Secondly, Union policy is not made by union members but by union leaders. The lack of influence of union members within their organizations has placed the union leaders in the position of wielding great economic power without restraint. Indeed none of the great "captains of industry" of previous generations — the Rockefellers, the

Morgans, the Carnegies, the Hills, or the Harrimans—possessed as great power over the industries and the public of the country as that held to-day by the leaders of the steel-workers, the autoworkers, or the railroad brotherhoods.

Union leaders no longer reserve the use of this economic power for instances of grave injustice or flagrant exploitation of union members. The power is frequently used to change government policy (as in the case of the political strikes in 1946) or to impose a questionable philosophy on the country (as in the case of this thing called GAW).

Thirdly, In a non-inflationary economy union leaders will create collective bargaining issues where legitimate issues do not exist. We are now well into the period of the "phony" collective bargaining era — automation is but an example—every employer has recently seen his employees "cranked up" over something he is *alleged* to have in mind to their detriment.

And Finally, the problems of controlling the effects of union power in the collective bargaining field cannot be solved through a pious hope that unions will become responsible to the public interest. It must be done through a dynamic public relations program that will inform the public of the real significance of collective bargaining issues. There must be an end in labour-management relations as in international relations to "secret covenants secretly arrived at." The public is so closely affected by the outcome of negotiations, as well as by the failure of negotiations, that it must be kept informed of where its interest lies. Initially the employees of every employer must be brought completely into the negotiation picture.

Only through such a program can labour leaders be made responsible for their actions to their members and to a well-informed public.

(11) Reported in The Financial Post of 5th March, 1955.

# Executive Compensation

by F. R. Manuel\*

**“WHAT PRICE** to place on leadership?” “How do we fairly and adequately compensate for skills of planning, decision-making and guidance in our business?”

These are timely, current questions that Boards of Directors and principal executives are asking — of themselves, their associates and advisors. Unfortunately, they are not getting very satisfactory answers for two reasons: Adequate yardsticks are not available, and the whole subject is treated generally as secretively as diplomatic discussions.

The only senior position that I have not seen advertised is that of President; and I suspect that even that post would be advertised if there was any hope of receiving bona fide applications. All of us — companies themselves (over their own names or box numbers), professional placement people, advertising agencies, accountants and auditors, management consultants — are seeking continually for competent executive personnel.

This is not a new situation but the tempo has been increasing over the past two years. This is one of the signs of our business growth. It is a sign of expansion beyond anticipations and a sign of inadequate manpower planning and development. Regardless of its origin, the search for key personnel poses the problems of how to attract new, capable men and how to provide

satisfactions to those that we have. Financial compensation is not the whole answer but it is a mighty potent part. Our purpose is to see what knowledge we have available and to anticipate what we will need additionally.

Let me tell you straight off that for the average Canadian company the news is not good. We, in this country, lack adequate facts to deal intelligently with our own problems of executive compensation. Stevenson & Kellogg has made a pretty thorough search and, to my knowledge, there is no adequate information specific to Canada.

On the other hand, considerable analysis and research has been carried out in the United States. Management publications over the past four or five years, particularly, have presented the findings arising from these studies. The patterns and the relationships that are thus revealed are very valuable to us, here, as patterns and relationships—but not as directly transferable data. The U.S. studies are based on companies that to us are huge enterprises; furthermore, our salary standards are appreciably different. Therefore, we must be conscious of the limitations of the information which I propose to discuss with you.

It is my intention to deal with the subject under three general headings; trends and highlights, some “bench-marks” of executive compensation and the area of executive incentives. In doing so, it is my desire to bring to you considerations that will be useful generally in your own company situations and to appeal to you to start doing something

\*Russell Manuel is vice-president of Stevenson and Kellogg Ltd., Management Engineers, and vice-president of the Personnel Association of Toronto. This is a paper he delivered before the Controllers Institute, Jan. 10 1956.

to improve the body of knowledge respecting executive compensation in Canada.

### **Trends and Highlights**

Over the years, the recognition and the status of the executive has gone through change and growth. As one authority puts it: (Ref. 1) in the early years of this century, executives were looked on as "hired help" and were paid within that general concept. A survey of salaries paid the ranking executives of 400 manufacturing companies in the ten years prior to 1914 disclosed a yearly average of just under \$10,000. By the early 20's, one or two incomes had reached the \$100,000 level and 1928 and 1929 saw annual earnings in excess of \$1 million. The "hired help" had now become "professional executives".

As a matter of fact, these very high rates of compensation in the late 1920's brought into being one of today's sources of information regarding the compensation of the key men in United States businesses. One piece of New Deal legislation required registered corporations to file the earnings of top management with the Securities and Exchange Commission.

The National Industrial Conference Board has conducted studies periodically over the past years and has reported anonymously, earnings for various key positions in selected industries. The most recent and continuous source of such data is the executive Compensation Service of the American Management Association. The S.E.C., and the A.M.A. material has been the basis of several very comprehensive analyses in the past four or five years.

Let me give you some of the highlights.

As you would suspect, the two most significant factors bearing on executive compensation are the type of business or industry and the size of the corporation. Security and Exchange Commission data for the earnings of the chief executive have been analyzed by several investigators. The highlights of those findings are interesting.

*Types of Businesses* — David R. Roberts of Carnegie Institute of Technology (Ref. 2) made a very thorough statistical treatment of the S.E.C. data for 939 U.S. companies as reported for the year 1950. For companies of the same relative size — in his study, corporations with sales between \$10 and \$20 million annually — he found no statistical significance in the rates of compensation between various businesses within the broad categories of manufacturing, mining and trade. However, airlines and utilities did have significantly lower levels of earnings for their No. 1 men. It is interesting to learn that other observers have found the same situation of a lower rate of compensation in railroading, banking and insurance. Though it has not been proven as the responsible factor, it is at least a coincidence that such unfavorable comparisons apply to those types of business where there is some degree of governmental inspection and control. I understand there was a tendency in this direction within the Nationalization programme in Great Britain.

*Size of Companies* — Of the measures of "size" which are commonly used, dollar volume of sales is the most significant. However, a recent study reported by Mr. Arch. Patton

1. George T. Washington and V. Henry Rothschild II,  
"Compensating the Corporate Executive"  
Ronald Press, 1951

2. David R. Roberts  
"New Facts About Executive Compensation"  
The Management Review, July '55



of McKinsey & Company, illustrates the use of other size factors — profits, invested capital and number of employees (Ref. 3). The 1954 earnings of principal officers of 618 United States companies were analyzed and plotted for 16 different industries. Significant trends of compensation were shown in most of the industries against the four criteria of size — sales, profits, invested capital and employees.

**Bonuses** — Surveys show that there is an increasing trend towards supplementing basic salaries with bonus plans in one form or another. Dean H. Rosensteel, Director of the A. M. A. Executive Compensation Service, in an article published early in 1955 (Ref. 4) reports that about 45% of the companies in the survey have some form of bonus or incentive plan for middle and top management positions. He further adds that if one eliminates financial institutions and utilities where bonus plans are rare, that the proportion is over 60%. From the same source comes the information that the average bonus for top level executives is approximately 50% of the salary. However, this does not imply any uniformity between companies because the range of bonuses when related to salaries is from a low of 5% to a high of 300%.

**Tax Effect** — There is one aspect of executive compensation that we can be quite sure is as true in Canada as in the United States. The "bite" of personal income taxes is formidable no matter where you look at it. As an illustration, an article in *Fortune*, March, 1952, tabulates the relative change in pur-

chasing power from 1939 to 1950 of four stratas of organization. These figures show that whereas the hourly-rated and white collar clerical show a small gain of 3%, the bottom level of supervision, (that is foremen and equivalent) had a loss of 13%; middle management dropped by 40%, and the very top group of management personnel regressed 59% in its purchasing power. This statement is based on the experience of 41 big companies in the U.S.; but it is broadly indicative of the results of a "soak the rich" policy in the design of income tax structures.

I do not propose to discuss "tax angles" at all. However, the impact of income taxes has promoted or hastened the adoption of supplementary benefits.

For instance, as an executive incentive to enable capital gains in a rising market, plans for stock options and stock purchases have become more widespread. A desire to spread the tax burden over more years and at lower rates has prompted the use of contingent deferred compensation plans.

Retirement plans are being enriched to provide greater security and to substitute to some extent for the reduced possibilities of personal savings out of current earnings. Further, it has been suggested that executive expense allowances are sometimes made a bit more liberal to ease some of the pressure. However, the most direct off-set to personal taxes is the "tax free" plan, whereby the incumbent is given a portion of his income on a "net" basis with the company paying additionally an amount to equal the personal income tax.

All such supplementary income plans if carried too far, give to the selected group a preferential demand on the company's earnings and its surplus, or place a "mort-

3. Arch Patton  
"Industry Patterns of Executive Compensation"  
Harvard Business Review, Sept.-Oct. 1955
4. Dean H. Rosensteel  
"Developing Effective Incentives for Management"  
Personnel, May 1955

gage" on the company's future. Carried to extremes, they can provide quite undesirable labour and public relations.

*Executive Turnover* — There is one other highlight associated with the studies of executive compensation that I want to bring to your attention. Mr. David R. Roberts, to whom I have previously referred, (Ref. 2), along with his statistical analyses, traced back the careers of men who were corporate officers in 1950 at the age of 25. He used a substantial sample and it was shown that there was a high probability that the findings from the sample could safely be generalized. Mr. Roberts reported that thirteen percent of the men accounted for all of the employer shifts which were made after attaining officer status. Further, that after reaching age 25, one quarter of these men accounted for two-thirds of the employer shifts; and that this one quarter averaged nearly five employers each—which was twice the average for the entire group.

Looking at it from the standpoint of companies, there was no indication that compensation, type of industry, size or other identifiable corporation characteristic was related to the degree of turnover of the executives. Such causes may be true in individual cases, but when a large number of companies is considered, any one of these characteristics did not have any relation to the frequency of loss of executives. The conclusion reached was that executives are human beings and exhibit the same personality traits as any other class of employee; that they have among their ranks "rolling stones", and this is the principal reason for executive turnover.

### **"Bench-Marks"**

In the matter of payment to their employees, companies have no uni-

versal or absolute values of measurement. There are no equivalents of the "foot" in linear measure or the "kilogramme" or "pound" in weights. Who, for instance, is to say that \$1.50 is the proper compensation for one hour's effort of an unskilled worker. Consequently, we are forced to use a set of comparative and everchanging values. Hourly rates are established by negotiation and compromise. They, in turn, have an effect on supervisory, clerical and technical salaries. It is the policy of most companies under this circumstance, to retain their relative position within their community and within their industry. In order to do this, they must know the "going rates" formally or informally—by organized surveys or by the acceptance or rejection of their pay as indicated at the employment office or in their turnover.

Executive compensation exists within the same general framework. However, because of the reluctance to disclose and exchange earnings information at this level, directors and top management have very scanty data. As a result, there are much wider variations and apparent inconsistencies in payments to executives.

The reluctance to release this information is quite natural and understandable. It is difficult to maintain anonymity of companies and of individuals when dealing with such senior positions. Titles from one company to another are not consistent—in fact the title in itself, in many instances, can point strongly to a specific company. Furthermore, the "size of the sample" is much restricted because, after all, there are so many more stenographers in any group of businesses than there are controllers, for instance. Thus, desirable and useful as data on the compensation of executives may be, it can only come into being with a strong assurance

of confidence in the receipt and treatment of the details and a sufficiently large number of participating companies so that the individual can be submerged adequately in the mass.

*The A.M.A. Survey* — These conditions have been established and maintained by the Executive Compensation Service of the American Management Association. Started in 1950, the Association now has about 2500 participating corporations. Earnings information is available on this broad base for positions of Chief Executive (Presidents, Chairman of the Board) Senior Vice-President, General Manager and the top executives in Sales, Manufacturing, Finance, Research, Engineering and Industrial Relations. Because of the breadth of the survey and the large number of companies involved, the data is analyzed and presented by types of business and industry and by size groups within these categories.

The A.M.A. Service now has a Canadian section including 104 companies with sales ranging from \$1½ to \$210 millions annually. It is not feasible because of the relatively small number of companies to give any industry breakdown for Canada. This is recognized as significant but inevitable limitation under the circumstances.

*Limitation of Surveys* — It is recognized that any compensation survey has to be used with caution. Mr. Lawrence A. Appley, President of the American Management Association, said with the release of the first data: "These figures represent what companies *are* doing, which is not necessarily what they *should* do . . . . They are averages, not standards, and should be used with a full appreciation of their limitations".

Any survey is a mixture in which the figures are from growing, high-

ly successful companies, along with those which are static or declining. However, if there is any 'weighting' of the results, my guess would be that the slant would be that of the progressive companies. It is our experience as consultants that the aggressive groups are always seeking for more and more help and at the same time, are more willing to "give" in order to "get".

Position titles can be misleading. As you well know, the responsibilities and duties are not identical from one company to another. Some one told me recently of a Vice-President of Finance in a company of less than 50 employees.

A danger of salary surveys—executive compensation surveys, in particular—is the relationship between positions may be followed too literally. Because a survey shows that the earnings of controllers average 25% of the presidents' that is not adequate evidence in itself that your company should adopt the same relationship. Maybe it should be 50% — or 15%.

*The Chief Executive as a Benchmark* — Though broad, general surveys are very useful as external indications of "going rates" for the senior positions in a company, the internal relationship within the company is equally important when determining the structure for a particular situation. Data which is available in the United States has been studied to endeavour to define "patterns" of relationships between the compensation of the chief executive and his immediate subordinates and, going deeper in the organization, the relationship in earnings between this top management group and the middle management echelon. Andrew R. Towl, Assistant Director of Research at the Harvard Business School (Ref. 5)

5. Andrew R. Towl  
"Patterns of Executive Compensation"  
Harvard Business Review, July '51

has presented the results of a comprehensive study which he and his associates carried out. Their findings indicate that there are recognizable patterns in the compensation ratios between the chief executive and his subordinates. But they could determine no factors by which it would be possible to predict in what industry or type of business any one of these patterns might occur. In his paper, Mr. Towl presented three sets of relationships, all of which are of interest to us. They reflect differences in management philosophy as expressed in policies of compensation. I am going to outline them briefly:

Pattern A—President at 100%

Executive Vice-President—70%

Vice-President in charge of Operations—50

(or, General Manager)

Vice-President in charge of Sales—35%

The remaining division or department heads range between 20 and 25% of the President's salary.

Pattern B—shows a much wider gap between the President and the next highest, thus:

President at 100%

Vice-President in charge of Sales—52%

Vice-President in charge of Manufacturing—50%

Vice-President in charge of Purchasing—50%

Treasurer and Comptroller—48%

Four senior officers under the President have compensations that are twice to two and one-half times that of the remainder which range between 20 and 25%.

Pattern C—is one with much finer and more regular steps so that the differentials between the President and the next six or seven succeeding executives descend in steps of 15 or 20%.

The latter relationship seemed to exist where there were one or more

specialists, such as a General Counsel or a Director of Research. This situation of narrower differentials was found also in the giant companies where there is a large number of executives to be fitted in between the top and the middle management levels. As an extreme example, he cited the Standard Oil Company (of New Jersey) which in 1945 had 145 executives receiving more than \$20,000 per year.

In Canada, our experience as consultants indicates that Mr. Towl's A and B patterns prevail in manufacturing corporations. 78% of the members of the Canadian Manufacturers' Association employ 100 persons or less. It is not surprising, then, in an economy of "small" companies to find that the chief executive has earnings well in excess of his subordinates. Even in companies of several hundred employees, leadership and control, significant long-range planning and policy decisions are frequently carried by one man. It is to be expected that his compensation might be half as great again or twice that of the next highest salaries.

However, such a relationship, though it be a fact, is not necessarily a sound one. Shared experience and direction of an enterprise can stimulate growth and expansion; it develops stronger and broader executives to minimize the problems of succession. In his book, "The Practice of Management", Peter Drucker quotes a report in the April, 1954, issue of Harper's Magazine, which is pertinent.

It concerns an important, long established bank in the United States which asked its research department if it could determine any "earmarks" which would tell if the management of a corporation is good or bad. The research people found this to be a tough question. Profits alone were not a reliable guide. Short-sighted executives

could show a good profit for a few years by letting a plant run down or by maladministration of reserves of raw material. On the other hand, a firm which had shown no profits might be on the threshold of success because years of development and long-visioned management are ready finally to pay off.

In the end, after studying hundreds of corporations, they found just one clue. Here, in effect, is the report of the researchers:

"If the top executive in a company gets a salary several times as large as the salaries paid to the Number Two, Three and Four men, you can be pretty sure that firm is badly managed. But if the salary levels of the four or five men at the head of the ladder are all close together then the performance and morale of the entire management group is likely to be high.

"The size of the salaries doesn't seem to make much difference", the report continued. Whether the President of the corporation gets \$20,000 a year or \$100,000 isn't important — so long as his Vice Presidents get something like 75 to 90 percent as much. But when the President pulls down \$100,000, and his main subordinates get only \$50,000 to \$25,000, it is time to look for trouble".

*Proportional Management Compensation.* There is one further bench-mark of executive compensation that I want to discuss. While doing so, I am going to propose a project that could be the basis of information which is unique for our Canadian economy.

In the late nineteenth century an Italian economist, Vilfredo Pareto, found an arithmetical relationship between executive salaries that was reasonably constant. The principle was adapted in a study of very large companies in the United States.

Mr. Arch. Patton to whom I re-

ferred previously, has reported the findings (Ref. 6). An analysis of 37 corporations having 20,000 or more employees each — the group represented in aggregate over 2 million employees — showed a fairly consistent relationship of one policy-making executive for every 1,000 employees. Or to re-state: The top management proportion is 0.1% of the total employee body. Further, it was found that there are very close to nine operating executives per 1,000 employees backing up each policy-making official — percentage-wise 0.9%. Thus, top management plus middle management very closely approximates 1.0% of the employee body.

The study showed, for this particular sample, that the median compensation of the top 0.1% in 1950 was 1.2% of the total wages, salaries and bonuses paid by the respective companies. Further, it developed that the top 1.0% of the policy-making and operating executives combined, accounted for just over 4% of the total compensation of these companies. The 1950 proportion of total payroll for these two groups was decidedly lower than in 1939. There were substantial differences between companies, of course; and the major point of difference appeared to be the industry which the particular company is in.

A statistic based on companies of 20,000 or more employees has academic interest only for us. But if we had a "yardstick" in Canada of top management compensation in aggregate, we would be able to adjust "our sights". I recommend to you, therefore, Pareto's principle and I borrow a title from Patton. I propose that this group — the Controllers — as one source, collect data from companies you represent as

6. Arch Patton  
"Are Executives Paid Enough?"  
Fortune, January 1953.



the basis for a study of Proportional Management Compensation.

I would define "Management" for this purpose as the chief executive plus the heads of functions, divisions or departments that report directly to the chief executive, but excluding private secretaries and "assistants to", who are primarily "leg-men".

As a start, I suggest only three pieces of information:

1. The percentage (expressed to two decimal places) that this management group is of the total employees of the company.
2. The percentage that the total compensation of the management group is of the total employee compensation for the company.

The compensation calculation should include wages, salaries, commissions (to employees) and bonuses; and should exclude supplementary benefits such as company payments to insurance and pension plans.

3. Type of business or industry, because the U.S. experience shows this is a significant factor.

The percentage figures would be plotted, one against the other. Frankly, I do not know what the result would be — for sure. The plotted points will obviously show an upward trend when they move from large companies to smaller ones; because the number of people in the management group will not drop proportionately as you go from 1000 to 100 employees, for instance. But whether the majority of the points will fall along a smooth curve I don't know.

But I can tell you this much: I have made a plotting for a very limited sample of Canadian companies within the same general industry, having a size range of less than 200 employees to over 1500 employees. The results fall very

closely to a line having a slope of 1 to .4. That is, if the management group, as I have defined it, is 1% of the total employees, compensation is .4% of the total for the company. Coincidentally — and that is as far as I can go at this stage — this is almost the same relationship that was found in the United States for Patton's study which I outlined previously.

The project I have proposed would be original research. I can find no record of any studies made on these bases — in the United States or in Canada. In my opinion, such a survey would be a constructive beginning for executive compensation data of our own. The participants have assurance of anonymity; they would not need to disclose any dollar amounts of payments to executives, number of persons concerned, nor size of company. And, naturally, no one would suggest that a trend was valid or that it be released for any particular industry grouping until there were a minimum of, say, five sets of data.

Since the "internal" relationship of management earnings is to some degree peculiar to each organization, I do not feel that having a figure that indicates a group payment only is a serious shortcoming of the proposal.

If the idea is adopted, I recommend that a similar analysis be made, for the same groups of companies, for five years ago and for ten years ago. Thus you would know what changes, if any, had taken place in the management compensation of your own particular company, or for an industry group.

#### **Executive Incentives**

When we use the term "incentive", we need to ask: "Incentive for what?" When we consider the current practices in executive compensation, we find two kinds of answers. There are direct incentives



to do a management job: To provide leadership, to plan, to recommend or set policy, and to make decisions and act. Then, there are the indirect incentives which encourage continued service in the company and provide greater financial security on retirement.

I have nothing to contribute in the area of indirect incentives—stock options, contingent deferred compensation, retirement plans, expense allowances and such like. They are closely associated with both corporate and personal income taxes — subjects in which you are much more competent than the management consultant. Therefore, I propose to discuss just two forms of management incentive — basic salary and bonuses.

*Basic Salary* — I will discuss the basic salary first. In some organizations, aside from supplementary benefits, it is the only means of compensation. In other companies, for the senior positions, salary may represent as much as 90 or 95% of total remuneration and vary from there to the point where it is 50% or less.

A thoughtfully designed salary structure can serve as an effective incentive medium. To do so there are, I believe, three basic considerations: First, adequate differentials between positions in the normal ladder of promotion to encourage individuals to so develop that they are ready and willing to accept greater responsibilities and to feel that their efforts have been rewarded. Secondly, there needs to be a substantial dollar range for each position. Generally, the range should be no less than 35 or 40%, and for the senior positions may be as great as 60 or 75%. The range must reflect, and be able to compensate for, the scope of individual initiative and contribution. A third desirable requirement, which is not always met, is a courageous adminis-

tration of a substantial portion of the salary range by the results of constructive performance reviews. Too often an established range is used up in perfunctory annual salary adjustments; if so, much of the incentive value is lost.

There is a question as to how far to go in formalizing a salary plan for executive personnel. There are many companies which use job evaluation techniques for hourly, clerical, supervisory and technical positions that stop short of the senior positions. It is felt that the latter are so highly individualized that the approach can not be used.

On the other hand, whenever there is a promotion, an appreciable change in assignments or a replacement, some one makes a judgment in establishing the compensation. I do not think there is any question that those judgments will be more consistent and more readily accepted if there is a systematic guide in making the decision. Some form of job evaluation will assure more realistic relationships between the various positions. Its objective appraisal will control the excessive optimism or severeness of divisional or functional heads.

*Bonuses*—As we have learned already, the payment of some form of bonus is a practice which has been adopted by approximately 60% of industry in the United States. There is no comparable proportion known for Canada, but our observations indicate that payment of bonuses is quite widespread in this country also. Experience with Salary Controls during the last war has prompted many companies to establish a precedent of variable bonus payments in addition to a straight salary plan.

Very many companies that we know pay a year-end bonus, or a Christmas bonus as it is commonly called. This form of bonus is representative of the category known

as "discretionary bonuses". The total amount to be distributed and "who gets how much" is unscheduled from year to year. One man or a small group in the company decides these matters. There is some incentive effect but it is not very specific; the recipients of the bonus do not expect that their share will necessarily vary in relation to the prosperity of the business.

Bonus distribution in some cases is directly proportional to salary. The bonus is calculated from year to year as a percentage of the salary. Under this circumstances, it is assumed that the salary level is a proper measure of the individual's contribution. The incentive aspect of this form of bonus payment is enhanced if a substantial portion—say, 40 to 60%—is allocated on the basis of regular performance reviews during the year and the remainder prorated to basic salary.

Of course, the most direct incentive is established when a profit sharing bonus plan is in effect. The kind of job that is done throughout the year, and from year to year, by the executive group of a company is pretty fairly measured in profits. It is at this level in the organization that profit sharing plans should be applied. When you spread a profit sharing plan too broadly, the relationship between effort or application of the worker and profits that come out "at the top" is difficult to establish.

There are many formulas in effect which spell out the conditions of a profit sharing bonus plan. In most of them, the participants are informed of their points or shares in the plan at the beginning of the year. The dollar value of points is calculated as frequently as once per month, but generally on a semi-annual or annual basis. Most plans provide for setting aside a portion of profits for shareholders' dividends and distributing a limited propor-

tion of the remainder. In some instances, a "ceiling" is placed on the amount any one person can receive, for example, "up to 50% of salary".

While referring to executive incentives, we must not overlook a specialized application that is common on sales to the executive in charge of that function. However, it is wise—as I believe you will agree—to incorporate with this type of compensation some controls to ensure the promotion of the more profitable products and the maintenance of predetermined levels of the costs of selling and distribution.

I have already referred to other forms of supplementary compensation in dealing with the trends and highlights of executive compensation. As incentives, they have a rather indirect effect. The important management incentives are a well designed and administered salary plan and some form of profit sharing bonus. Each company has its own characteristics and idiosyncrasies; its plan of compensation should be tailored to its specific requirements and preferences.

### Conclusions

In summary, then, gentlemen, any specific knowledge which we have in respect of the magnitude and distribution of executive earnings is primarily applicable to the United States. Any generally available information about Canadian executive compensation can not yet be classified by industry. This is unfortunate because type of industry and size of company appear to be the factors best related to level of executives' compensation as "external" bench-marks. Within each company it is important to ensure a proper relationship of compensation between the senior positions; surveys should not be depended upon to establish this relationship for you. The concept of "proportional management compensation" is intriguing

and warrants adequate research to explore its possibilities. Your participation and support of such a project is urged sincerely so that a body of knowledge can be initiated in

this country. Broader and more specific information will help you and your companies to develop and administer better plans for management incentives.

---

## How We Do It — Personnel Records

by *K. E. Cowan\**

Dunlop Canada Limited decided about a year ago to modernize and revise the personnel records for their new plants at Whitby, Ontario. At that time, we were using five separate records to contain the personnel information for our employees. These records were as follows:

1. Personnel File Folder filed alphabetically by name.
2. 5 x 8 Blind File Personnel Record card filed by Clock Number.
3. 5 x 8 Card Line File Cross-Reference card filed alphabetically.
4. 5 x 8 Seniority Card filed by Department by Seniority.
5. 5 x 8 Two-year Attendance Record Card filed with Seniority card.

These cards were located in different places throughout the Personnel Department. When it was necessary to make a reference or a posting, the operator had to leave his desk and walk to the various files.

VISIrecord of Canada, Limited, worked with us in the design of a system so that all of the records,

with the exception of the personnel file folder, are integrated into one complete operation. Our new personnel system is divided into three distinct sections, as follows:

A. The first section is for cross-reference. This card is filed alphabetically, bearing the name of the employee, his clock number and the department in which he works, in the visible margin.

B. The second section contains a 2-card system. The first card is the personnel record card, bearing considerably more information than the previous card, thus reducing the incidence of reference to the personnel file folder. These cards are arranged by departments and filed by clock number sequence for posting and reference. With this system, removed cards are readily visible and the allocating of clock numbers to new employees is made to the out numbers in the clock number sequence.

Computation of the number of employees in each department is made by simply counting the outs in the clock number sequence.

Behind each employee's personnel record card is filed his attendance record card on which is posted the employee's absences. In our old system, the attendance card was filed by department, by seniority,

---

\*—Mr. Cowan is Personnel Manager, Dunlop Canada Limited, Whitby.

## **TWO BIG CONFERENCES**

### **Eighth Annual Industrial Relations Conference**

**at McGill University, Montreal, April 16 and 17**

For information write the Secretary,  
Industrial Relations Centre,  
McGill University, Montreal.

### **Fourteenth Annual Toronto Personnel Conference**

**at the Royal York Hotel, Toronto, April 26 and 27**

For information write Carl H. Rankin,  
120 Roxborough St. E., Toronto.

and as the posting carried the clock number, the posting of attendance cards was a very difficult and time-consuming operation.

C. The third section of the system is used for seniority records. These cards are filed by department showing the seniority for each employee within the department. The card for the man with the most seniority in the Department is filed at the extreme left end of the row and the card for the man with the least seniority is filed at the extreme right end of the row. Seniority is recorded on the card by punching out notches in the visible margin. Each notch represents one year of service. If the department staff is to be decreased, the card on the extreme right end of the row is re-

moved and thus the person within the department with the least amount of seniority. When a man has been transferred from one department to another, his seniority in the previous department in which he worked does not become effective in the new department until he has been there for a period of 12 months. We, therefore, have a series of numbers of 1 to 12 along the visible diagonal margin of the VISI-record card. These numbers are used to indicate the months of service for a new employee within the Department. At the end of his 12th month, he then reaches his complete seniority and his card will be moved from the extreme right end of the row to its proper place within the row.

## Du Pont Speeds Routine By Dropping Time Clocks

Removal of punch clocks in plants of Du Pont Co. of Canada Ltd. has brought good results both for company and employees.

In the first three months without the clocks the company has found that employees prefer the new system because it eliminates delays at the gatehouse and places greater trust in them.

The company has also benefited through improved employee morale, greater foreman-employee understanding and a saving in equipment and clerical effort. Employees formerly were kept busy checking and correcting.

All three plants had used time clocks since their start-up. They are the Shawinigan Falls, Que., plant producing cellulose and polythene products, which began in 1932; the Kingston, Ont., nylon spinning plant which began in 1942; the Maitland, Ont., plant which started producing nylon intermediates in 1953. The Shawinigan plant has 480 hourly-paid employees, Kingston 775, Maitland 400.

Experience with time clock operation had been reasonably good. For example, there was less than average incidence of false punching. However, as in most plants, the delays in punching out irritated many employees.

In an attempt to get rid of this type of delay, the new system was instituted. The time clocks were taken down and the new "honor system" substituted.

The immediate result was a boost in responsibility for the foreman, whose time allocation sheets became the sole basis for payroll preparation.

The employee, too, had to cooperate by reporting to his foreman if and when he was late. Between shift changes, all entries and exits continued to be recorded by the gatehouse attendants.

Employees apparently like another feature about the system: it puts them more on a par with office employees, who don't have to punch out. Also, both groups, when working overtime or "non-standard" hours, must sign a register. In all, plant workers feel the removal of time clocks also removes a lot of regimentation.

### Suspicious

At the start, some employees were suspicious. They wondered what the "catch" might be. Works managers report the suspicion has now disappeared and there's no doubt that the lack of time clocks adds to the plants' attractiveness as places to work.

Does the "honor system" work? Du Pont of Canada has found there is less lateness under it than under the punch clock system. To date, no employee has taken advantage of it. Early quitting and line-ups have been reduced, although the closer relationship with the foreman may be a factor.

The plant costing systems were unaffected by the change. However, the cross checking of time sheets and cards was eliminated.

One plant manager looking back noted that a great deal of time and effort had been directed — and necessarily so — to briefing all members of supervision thoroughly so that part which the foreman had to play in the new system was fully understood and appreciated.

This is the second issue of

**THE CANADIAN PERSONNEL & INDUSTRIAL RELATIONS JOURNAL**  
**FOR 1956**

If you need to know what is new in The Canadian Personnel and Industrial Relations field in 1956, you will want to complete the coupon below.

The Editor

The Canadian Personnel & Industrial Relations Jnl.

Suite 2, 143 Yonge Street, Toronto.

Attached is my subscription to The Canadian Personnel and Industrial Relations Journal for one year. \$3.00 to members of Canadian Personnel Associations. \$4.00 for non-members.

NAME .....

ADDRESS .....

Member of ..... Personnel Association

**Personnel Journal Editorial Board**

Managing Editor—

J. Rae Perigoe, M.A.

Associate Editor—C. P. Chaston

Secretary Treasurer—E. R. Barrett

*Association Editorial  
Representatives*

Montreal—W. B. Brebner, Crane Ltd., Montreal.

Montreal Womens—Miss M. R. Lachapelle, Can. National Railways, Montreal.

Peterborough — George Barns, Canada Packers Ltd., Peterborough.

Toronto—C. P. Chaston, Shell Oil Co., Toronto.

Toronto (Women's)—Miss Kathleen R. Lewis, Toronto General Trusts Corp., Toronto.

Hamilton — J. Stanley Thompson, Canadian Industries Ltd., Hamilton.

Niagara District — Bill Gibson, Foster Wheeler Co., St. Catharines.

Grand Valley — Jim Kinder, Canadian Office and School Furniture, Preston.

Guelph—C. W. Walker, Federal Wire & Cable Co., Ltd., Guelph, Ont.

London—Chas. J. Malone, Public Utilities Commission, London, Ont.

Windsor — E. E. Litt, The Heinz Co., Leamington.

Winnipeg—C. W. Gowan, Federated. Cooperatives Ltd., Winnipeg.

Calgary—Harvey S. Greenway, Canadian Western Gas. Co. Calgary

Edmonton—Ken W. Lofts, Canadian Nat. Rlws., Edmonton, Alta.

Vancouver — D. L. Lloyd, Canadian Fishing Company Ltd., Vancouver.



